BEFORE

THE PUBLIC SERVICE COMMISSION OF

SOUTH CAROLINA

DOCKET NO. 96-008-G - ORDER NO. 96-514

AUGUST 7, 1996

IN RE: Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies of Piedmont Natural Gas Company.	)	ORDER RULING ON GAS COSTS AND GAS PURCHASING POLICIES

On April 6, 1988, the Public Service Commission of South Carolina (the Commission) issued its Order No. 88-294 which requires the Annual Review of the Purchased Gas Adjustment (PGA) and Gas Purchasing Policies of Piedmont Natural Gas Company (Piedmont or the Company).

By letter, the Commission's Executive Director instructed the Company to publish a prepared Notice of Filing, one time, in a newspaper of general circulation in the area affected by the Company's Application. The Notice of Filing indicated the nature of the Company's Application and advised all interested parties of the manner and time in which to file appropriate pleadings for participation in the proceedings. The Company was instructed to directly notify all of its customers affected. The Company submitted affidavits indicating that it had complied with these instructions.

A hearing was held on August 1, 1996, in the offices of the Commission, with the Honorable Guy Butler, Chairman, presiding.

Piedmont was represented by Jerry W. Amos, Esquire and John E. Schmidt, Esquire. The Company presented the testimony of Thomas E. Skains, Chuck W. Fleenor, and Ann H. Boggs. The Consumer Advocate for the State of South Carolina (the Consumer Advocate) was represented by Hana Pokorna-Williamson, Esquire. The Consumer Advocate presented no witnesses. The Commission Staff (the Staff) was represented by F. David Butler, General Counsel. The Staff presented the testimony of Norbert M. Thomas and Brent L. Sires.

Company witness Skains testified with respect to the Company's "best cost purchasing policy," and the steps taken during the review period to comply with that policy. Skains testified that the Company is satisfied that the policies and procedures presently in place are prudent, and that they have produced adequate amounts of reasonably priced gas for Piedmont's customers. Skains further testified that Piedmont did not make any changes in its "best cost" gas purchasing policies or practices during the year, but it did contract for additional firm transportation and storage expansion capacity to meet the needs of its rapidly growing market, consistent with the "best cost" policy. Skains further outlined the additional steps taken by Piedmont to manage its gas costs, consistent with its overall "best cost" policy.

Company witness Chuck W. Fleenor described Piedmont's market growth, its growing design day, and seasonal requirements for the Carolinas through the winter of 1999 to 2000, and the Company's intention to establish a 5% reserve margin for the Carolinas as part of its supply plan.

Company witness Ann H. Boggs, testified that current true-up procedures result in a properly stated cost of gas, and that Piedmont's gas costs are properly recorded in compliance with Commission Orders. Further, Boggs stated that the Deferred Account balance is properly stated, including interest thereon at the overall rate of return.

Staff witness Norbert M. Thomas testified that the Accounting Staff had reviewed the monthly filings made by the Company, and the activity included in Account No. 253.04 for the period April, 1995 through March, 1996. Thomas testified that it was Staff's opinion that the adjusted balance at March 31, 1996 of ($347,257) fairly represents the over-collection for the period, and that the amount is accurately stated and in compliance with prior Commission Orders.

Staff witness Brent L. Sires also testified during the proceeding. Sires testified that the Utilities Department has found that the Company's PGA is being operated in compliance with the various appropriate Commission Orders. Sires also presented two Staff recommendations to the Commission.

Consistent with prior years, according to Sires, Piedmont recorded the Weather Normalization Adjustment (WNA) for the past winter (November through March) in a Deferred Account. Also, consistent with prior years, Piedmont has transferred the WNA amount of $2,384,073 credit (winter 1995-1996) to the 253.04 Deferred Account. The Company has historically recorded any WNA surcharge or refund amounts in a separate non-interest bearing account, and has transferred the amount into the 253.04 Deferred Account at the end of the winter period. Sires described Staff's two recommendations.

First, Staff recommends that the Commission amend its Order No. 93-1095, issued in Docket No. 93-264-G, requiring that variances due to the implementation of the WNA be accounted for in a Deferred Account separate from Deferred Account No. 253.04, and rule that the variances due to the implementation of the WNA be placed into the 253.04 Deferred Account at the end of each winter month.

Second, Staff recommends that the Commission amend its Order No. 93-1095, addressing the requirements of the Company to file with the Commission a disposition or collection plan at the end of the winter period for the balance attributable to the implementation of the WNA. Staff contends that this requirement to refund the WNA balance as a separate item would no longer be appropriate, if the Company recorded the WNA balance in Deferred Account No. 253.04 on a monthly basis. Sires explained Staff's reasoning for amending the language by stating that by recording these variances on a monthly basis in the 253.04 Deferred Account, the WNA balances would be subject to the Application of interest as set forth in Commission Order No. 95-1649 in Docket No. 95-715-G.

Company witness Boggs stated that Piedmont agreed with these recommendations. The Consumer Advocate professed no opposition to the recommendations.

Staff's review as per witness Sires of gas prices during the review period, along with the monthly balances of Deferred Account 253.04 indicated that the $2.800 per dekatherm benchmark cost of gas was appropriate. Sires noted that the Company has made a PGA filing identified as GCRM-81 (Gas Cost Recovery Mechanism) to be effective August 1, 1996 to increase the benchmark cost of gas to $2.980 per dekatherm. Sires expressed the opinion on behalf of Staff that this benchmark cost of gas is representative of the Company's gas cost on average over the next twelve (12) months.

Sires addressed the applicability of Commission Order No. 90-763 which ruled that Piedmont was to endeavor to limit the balance in the Deferred Account to $3 million. Sires stated that in Order No. 95-1649 in Docket No. 95-715-G, the Company was ordered by the Commission to compute interest on the floating balance in the Deferred Account at its overall rate of return of 10.77%. This ruling by the Commission addresses the concern it had on ruling on the appropriateness of requiring the Company to file a distribution plan for refunding the balance in the Deferred Account at a given time, due to substantial swings in the balance. Today, the management of the Deferred Account balance is managed by the Company and held in check by the requirement of computing interest on the floating balance in the Deferred Account. When the balance in the Deferred Account needs adjusting, the Company, in accordance with its approved PGA tariff would file with the Commission a PGA filing.

Sires further stated his belief that the Company is acting prudently in arranging for supplies to meet the requirements of its firm customers today, as well as in the future.

Based on the record as a whole, the Commission concludes that the Company's gas purchasing practices and policies are prudent. With regard to capacity release credits, the Commission concludes that the monthly report rendered by Piedmont should continue to include capacity release activity.

With regard to the recommendation of Company witness Fleenor, that would establish a 5% reserve margin, the Commission believes that this is appropriate, based on the evidence, and approves said proposal.

With regard to Staff witness Sires' two recommendations, the Commission approves said recommendations and hereby amends Order No. 93-1095 accordingly. In future WNA periods, variances due to the implementation of the WNA should be placed into the 253.04 Deferred Account at the end of each winter month. Further, the Commission withdraws its requirement of having the Company file with the Commission the disposition or collection plan at the end of each winter period for the balance attributable to the implementation of the WNA. We believe that the Staff has stated reasonable support for its proposal, and we hereby adopt it.

Further, we adopt the benchmark cost of gas to $2.980 per dekatherm. Staff has supported the position that this benchmark cost of gas is representative of the Company's gas cost on average over the next twelve (12) months.

IT IS THEREFORE ORDERED THAT:

1. Piedmont is hereby permitted to maintain its commodity cost of gas at $2.980 per dekatherm, as requested in Piedmont's filing. This amount is without prejudice to Piedmont's right to further revise the benchmark in accordance with provisions of its PGA, if future conditions warrant, and is without prejudice to the parties' right to request review of the benchmark in accordance with the Commission's PGA provisions.

2. The current procedures in Piedmont's PGA result in a properly stated cost of gas recorded in compliance with Commission Orders, and the Deferred Account activity was properly recorded and reported to the Commission as required.

3. Piedmont should continue to account for capacity release credits as it did during the review period, and Piedmont should continue its practice of including capacity release activities with its monthly reports.

4. The Company's gas purchasing practices and policies are hereby found to be prudent.

5. The Staff's proposed amendments to Order No. 93-1095 are hereby approved.

6. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

Chairman

ATTEST:

Executive Director

(SEAL)